Small Business Program Update

Mecklenburg County Board of County Commissioners

FY 2019 Budget Retreat

January 23, 2018

Economic Development Focus Areas

Business Attraction and Retention

- BIP Program revised
- One retention program staff on-boarded in January 2018

Small Business and Entrepreneurial Support

- Comprehensive small business ecosystem assessment completed 2017
- One small business concierge staff on-boarded in March 2017 and one small business capital access staff on-boarded in October 2017

Workforce Development

- On going collaboration with workforce development partners to stream line and coordinate service delivery

Connected Communities

- Ongoing support of infrastructure and development projects

Tourism

- Ongoing support of cultural and sporting events

Growing Enterprises

10 – 100 employees
Manufacturing
Contract & Personal Services
Construction
Retail services

Small Proprietors

1-10 employees
Retail
Contract & Personal Services
Construction

High Growth / High Tech

1 - ???
Technology based
Mobile / Data
Bio-Tech
Energy

Small Business Continuum

Initial Focus: Proprietors

- Most directly addresses economic mobility challenges
- Reaches broadest cross section of County residents
- Can help stimulate neighborhood investment
- One of most common inbound service request made to OED

Small Proprietors
1-10 employees
Retail
Contract & Personal Services
Construction

Assessment Recommendation Areas

THOMAS P. MILLER & ASSOCIATES

- Comprehensive assessment of traditional small business ecosystem
- Benchmark Mecklenburg performance and national best practices
- Focus groups, surveys, stakeholder interviews
- Develop policy recommendations to address ecosystem gaps

Connect

- ✓ Concierge Service
- ✓ Accessible Community Outreach

Establish

- ➢ Capital coaching
- ❑ Revolving Loan Fund

Sustain

- ➢ Scale up Education Series
- ➢ Mentoring

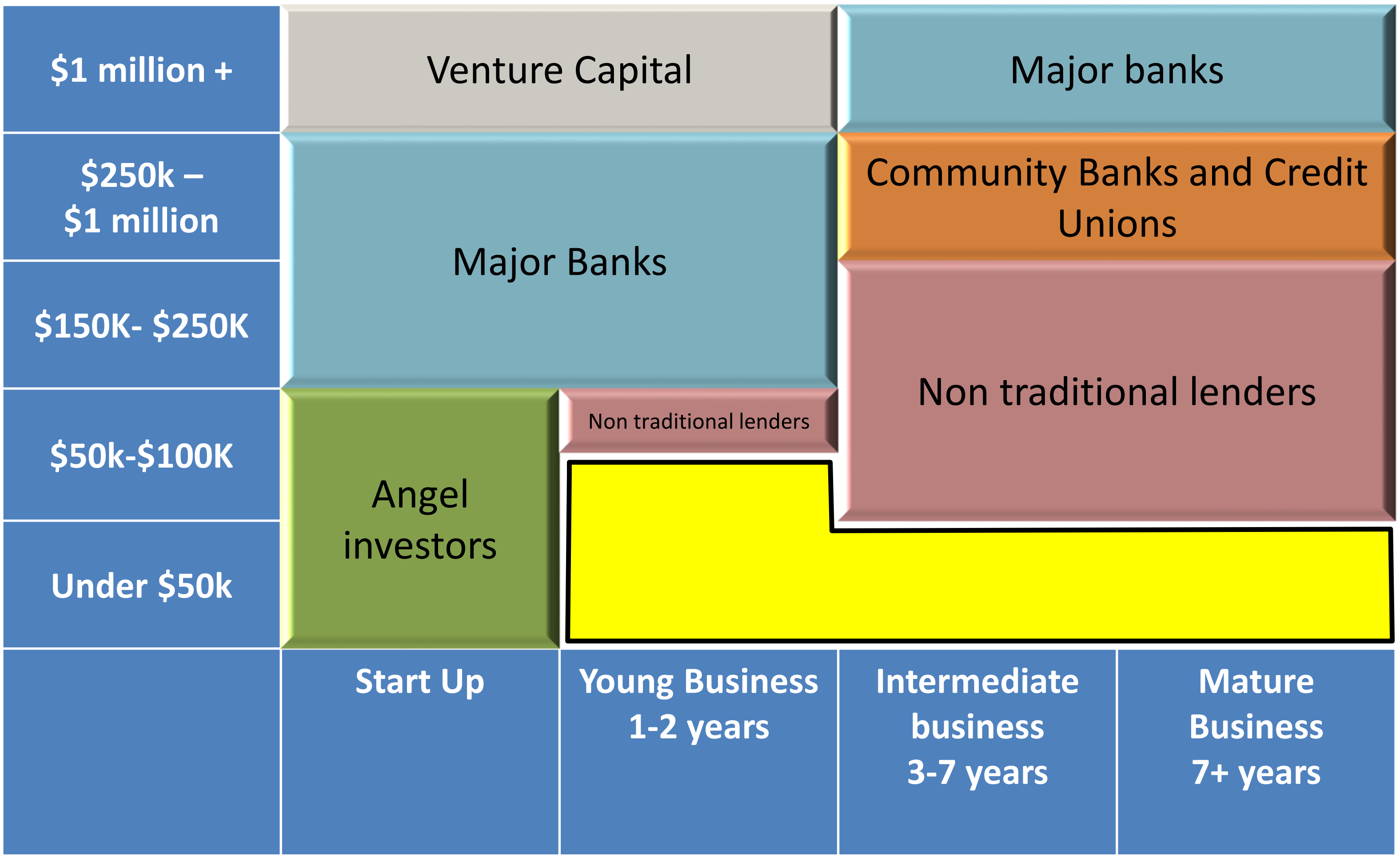
Promote

- ❑ Entrepreneurship Competition
- ❑ Social media promotion and awareness campaign

Small Business Lending Update

- Small business lending gap of <$75,000
- Rationale for municipal lending programs
- Peer municipality review
- Types of lending structures
- BOCC loan approval process
- Next Steps

Mecklenburg County Market
Small Business Lending Gap



Why Does the Capital Gap Exist?

- Traditional lenders have no incentive to make smaller loans
  - High marginal processing costs compared to low interest returns
  - Can be time consuming for loan officers
  - Do not meeting internal rate of return goals for profitability goals

- Centralization and standardization of approvals has taken ability of branch small business lending officers to make 'character' loans

- No effective tool to compel traditional lenders to make small size loans other than Community Reinvestment Act compliance

- Small business loans in the sub $100,000 range and for younger businesses can have somewhat higher default rate than larger loans

Why Jurisdictions Offer Loan Programs

Small business lending by jurisdictions is common nationwide:

- Small businesses help diversify economy
- One form of economic mobility solution
- Small business growth can lead to neighborhood revitalization
- Job creation and retention; small businesses (*50 or less staff*) employ approx 37% of workforce
- Some use small business lending to help MWSBEs compete for government contracts

Peer jurisdictions benchmarked for lending programs:

- Allegheny County … *Pittsburgh, PA*
- Franklin County … *Columbus, OH*
- Hennepin County … *Minneapolis, MN*
- Marion County … *Indianapolis, IN*
- Miami/Dale County … *Miami, FL*
- Multnomah County … *Portland, OR*
- Orange County … *Orlando, FL*
- Travis County … *Austin TX*
- Wayne County … *Detroit, MI*
- Wyandotte County … *Kansas City, KS*

Summary of Peer Municipalities Loan Programs

- Loan programs are highly variable and targeted to specific local needs
- Funding comes from a mix of sources
  - General fund dollars
  - Federal or state grant dollars
  - Foundation / corporate giving
- Can be operated by local government, affiliated economic development corporations, private sector banks, community banks and credit unions
- Average loan size is between $30k and $75k and number about 25 loans per year
- Reported default rates between 6% and 9%, national SBA programs 10% to 12%
- Many align loan programs with technical assistance providers, and some even make technical assistance a condition for an applicant to obtain a loan

Direct Lending

- County funds, underwrites, manages and collects on loans made with County and / or grant dollars
  - Full lending – County is primary lender
  - Gap lending – County provides a second position loan

Indirect Lending

- County places money with a third party that underwrites, manages and collects on loans
  - County can be sole funder or be part of a pool of funds

Loan Guarantees

- County provides funds to cover losses by third party on loans they make that meet the goals of the County

Direct Full Lending: The County funds the entire loan request

Advantages

- Ability to set program goals and ensure loans meet goals
- Faster decision making
- Senior lien position on collateral
- Gain return on interest income for revolving lending

Disadvantages

- County dollars at full risk
- County must build or contract loan processing infrastructure
- County bears reputational risks
- County must be willing to exercise foreclosure and other remedies on delinquent loans

Direct Gap Lending: The County funds a portion (e.g. 25%) of a loan request with the remainder from bank/credit union or CDFI

Advantages

- Double underwriting and could reveal unidentified risk
- Shared risk amongst lenders
- Leverages County resources, e.g. a 1:3 ratio
- Higher return on interest income as funding portion is not calved out

Disadvantages

- County would be at a junior lien position
- Reduced interest income on a project by project basis
- Traditional lenders may not wish to participate
- Driven by the first position lender's goals, not County's

Loan Administration Option #3

Indirect Lending

Advantages:

- No infrastructure costs
- County removed from underwriting process - lower reputational risk

Disadvantages:

- Limited ability to drive program objectives
- No interest and fee income returned to County
- Marketing and staffing costs built in to fees charged by third party
- Potential for “step-child” effect in handling of portfolio
- Delayed information/data
- Security risk – data, borrower information, etc.

BOCC Approval Options

Current Option - Public Hearing on each individual loan

- Present each loan application at public hearing, when it has been underwritten and recommended for approval to County Board of Commissioners
    - Likely to have very low participation as borrowers don't want personal details proactively shared with public

Potential Legislative Solution

- NCLEG authorization to establish program guidelines and criteria. BOCC would adopt program at public hearing and loans would then be underwritten and approved by credit committee according to adopted guidelines and criteria.

Next Steps

- OED staff to continue providing research and program modeling
- County Manager and Executive Team review and provide feedback on potential pilot program models
- OED Staff to continue updating BOCC Economic Development Committee